

**FINAL
ALTERNATIVE ASSESSMENT**

(COVER PAGE)

Session : January 2022

Programme : Diploma in Business (DIB)

Course : FIN2102: Financial Management

Date of Examination : 8 March 2022 (Tuesday)

Time : 4.00pm – 6.30pm Reading Time : Nil

Duration : 2 Hours 30 Minutes

Special Instructions :

This paper consists of **TWO (2)** SECTIONS. Answer **ALL** questions in **SECTION A** and **SECTION B.**

Material permitted : Non-Programmable Scientific Calculator

Materials provided : Nil

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Chief Moderator : Kathleen Lee Bee Lan

This paper consists of 5 printed pages, including the cover page

DIPLOMA IN BUSINESS PROGRAMME (DIB)
FIN2102: FINANCIAL MANAGEMENT
FINAL ALTERNATIVE ASSESSMENT: JANUARY 2022 SESSION

Instruction: This paper consists of **TWO (2)** SECTIONS. Answer **ALL** questions in **SECTION A** and **SECTION B**.

Section A: Answer **ALL** question.

Question 1

a) James intends to retire 25 years from today and he has identifies that he needs \$10,000 annually after his retirement. Hence, he decided to invest in a retirement fund. The first withdrawal of retirement funds is 1 year from the day he retires. James also evaluated that he will earn a 5% interest annually on the retirement fund and he needs the fund for another 10 years after his retirement. Calculate the amount James should deposit in the account today so that he will have enough funds for his retirement.

(8 marks)

b) Siva invested \$20,000 in a fixed deposit account. Calculate the interest earned and total amount at the end of 5th year if the bank provides a 4% interest compounded:

(i) Semi-annually (5 marks)

(ii) Monthly (5 marks)

c) If a business has \$10 million to invest for two years, which of the following investment options should it select?

(i) Invest the monies at compound return of 12% per annum, compounded semi-annually.

(ii) Invest the monies at compound return of 11.88% per annum, compounded monthly.

(7 marks)

(Total 25 marks)

Question 2

(a) The capital structure of a company is segregated as follows:

Common stock	50%
Preferred stock	20%
Debt	30%

Other details of the company are pointed out below:

- Market price of common stock is valued at \$14 and common stock beta is 1.5.
- Current T-bills (risk-free) rate is 2% and the market's return is 11%.
- Recent preferred stock dividend is \$0.30 per share and the market price of preferred stock is valued at \$19.
- The flotation cost for preferred stock is \$0.25.
- Company issued \$1,000 par value bonds with 10 years remaining to maturity.
- The bonds have an 8% coupon compounded semi-annually, with the current market price of bond is valued at \$1,200.
- Company tax rate is 18%.

(i) Calculate the cost of common stock (equity). (3 marks)

(ii) Calculate the cost of preferred stock. (3 marks)

(iii) Calculate the cost of debt. (6 marks)

(iv) Calculate the weighted average cost of capital (WACC). (3 marks)

(b) MK stock's market price is valued at \$5 per share and the company recently paid a \$0.20 dividend per share. The required rate of return is 11%. Evaluate the growth rate of dividend for MK stock according to the constant growth model.

(5 marks)

(c) X Corporation has issued \$1,000 par value bonds that compensate 12% coupon rate semi-annually. The bond matures in 8 years of time and the market price of the bond is \$1,080. The required yield to maturity on market is 9%. Calculate the bond's intrinsic value based on the required yield to maturity on market.

(5 marks)

(Total 25 marks)

Question 3

You are deciding to invest either in Project XX or Project YY. The projects are mutually exclusive and have the cash flows as follows:

Year	Cash Flow (\$)	
	Project XX	Project YY
0	-35,000	-40,000
1	15,000	16,000
2	16,000	14,000
3	13,000	12,000
4	10,000	12,000

The initial outlays for Project XX and Project YY are \$35,000 and \$40,000 respectively. The cost of capital is 8%.

- (a) Calculate the payback period for both projects. (5 marks)
- (b) Calculate the discounted payback period for both projects. (8 marks)
- (c) Calculate the net present value (NPV) for both projects. (6 marks)
- (d) Briefly discuss **TWO (2)** advantages and **TWO (2)** disadvantages of internal rate of return (IRR). (6 marks)

(Total 25 marks)

Section B: Answer **ALL** question.

Question 1

- (a) Explain **THREE (3)** essential decision areas of financial management. (9 marks)
- (b) Define agency problem and explain **THREE (3)** reasons on how do agency issues bring impact on wealth maximization. (10 marks)
- (c) Discuss any **THREE (3)** differences between dividend payment and capital gain. (6 marks)

(Total 25 marks)

~THE END~

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